

**CITY OF MOUNTAIN VIEW
MEMORANDUM**

DATE: May 14, 2004

TO: City Council

FROM: Nadine P. Levin, Assistant City Manager
Helen M. Ansted, Principal Financial Analyst

SUBJECT: MAY 18, 2004 STUDY SESSION – COST RECOVERY (FEE STUDY)
FOLLOW-UP

INTRODUCTION

Council authorized review of the costs/cost recovery for specific service areas during the budget approval process for the current fiscal year. Maximus, a private firm, was engaged to perform the study. Staff presented the results of the study and preliminary fee recommendations to Council in concert with the Narrative Budget presentation on March 30 (Attachment A). The preliminary fee recommendations for fire prevention, multi-family housing inspection and hazardous materials permit and inspection fees were presented to Council on May 4. Council requested time for a dedicated discussion of the results of the study, and a May 18 study session was scheduled for this purpose.

Since the March 30 presentation, staff has conducted input sessions with the Parks and Recreation Commission (PRC) for the Recreation-related fees (April 28) and a stakeholder meeting regarding Building, Planning and Public Works fees (May 5). A summary of the results of these meetings is included with this report. In addition to those sessions, staff has been engaged in a process of reexamining the preliminary fee recommendations to consider and/or reconsider the following:

- The goal of 100 percent cost recovery.
- History of fee increases.
- Updated information about fee changes neighboring cities are implementing.
- Impact of aggregate fee changes on different types of developments.

- Questions/concerns raised by Council at the March 30 meeting.
- Comments from the March 30 Council meeting; April 28 PRC meeting and the May 5 stakeholder meeting.

For ease of review, the memo is divided by category of fees and concludes with a summary of recommendations for all fee categories.

RECREATION SERVICE FEES

The guidelines that were used to develop the preliminary fee recommendations regarding changes in Recreation service fees included in the March 30 cost recovery report can be summarized in the following manner:

- Recognition that a significant level of General Fund subsidy will likely continue given the nature of the services provided.
- Opportunity to move closer to a range of 50 percent to 75 percent of the market for some services.
- Retain a no-fee approach for programs that are currently provided to participants free of charge.
- Recognition that many of the fees have not increased since 1999, other than for inflation.

The specific preliminary fee recommendations are presented in Attachment B and represent a total increase of approximately \$69,000 annually (8 percent increase in revenue) and lowers the overall General Fund subsidy to Recreation services from 72 percent to 69 percent.

In addition to making specific fee recommendations, staff presented to Council on March 30 a recommendation to consider the following revisions to the Recreation Fee Waiver Policy:

- Families receiving reduced-cost lunch through the school district to be eligible for 50 percent waivers and subject to an annual cap of \$400 per family. (Currently eligible for 100 percent waiver with no annual cap.)

- Families receiving free lunch to be eligible for 100 percent fee waivers and subject to an annual cap of \$800 per family. (Currently eligible for 100 percent waiver with no annual cap.)

The recommendations were developed in light of the fee waiver policies of comparable cities and the recognition that the value of the waivers over the last four registration seasons represented \$118,000 of lost revenue or 14 percent of the total fee-based program. Additionally, the recommended policy change may be helpful in reducing an increasing trend of people signing up for a class/program and not attending. This can preclude others from registering for the class/program.

On April 28, 2004, the PRC held a public meeting to consider the cost recovery study as it related to the Recreation fees and staff's recommended changes in the fee waiver program. A draft of the minutes from the PRC and the staff report from the meeting is attached (Attachment C). The PRC received several e-mail comments from members of the Mountain View Masters Swim Club and from one facility renter opposing the increased fees. The PRC did not recommend the preliminary fee recommendations at this time but rather recommended that they develop guiding principles to be used for setting Recreation fees by evaluating each Recreation program or activity based on detailed program costs, priority in terms of value to the community, the number of users and efficiencies.

The PRC recommended approval of the recommended changes in the fee waiver policy with the addition of the following provision:

- Families receiving fee waivers from the Community Services Agency will be granted either 50 percent or 100 percent waivers based on eligibility similar to the free and reduced-cost lunch program guidelines. These families will also be subject to the \$400 and \$800 annual caps per family.

Staff is requesting that if the City Council approves the PRC's recommendation to have additional time to evaluate the preliminary fee recommendations that the PRC be asked to return to the Council with proposals as early as possible in the fiscal year in order that any revenue increases could at least partially be realized during the upcoming fiscal year.

BUILDING FEES

Staff's preliminary recommendation was to increase the building fees 9 percent to recoup 100 percent of all costs of providing a service (both direct and indirect costs,

including support provided by Fire Prevention, Hazardous Materials, Planning and Public Works). In general, Building fees have been at or very near complete cost recovery. Since completion of the Maximus fee study and the preparation of the March 30 staff report, staff has reviewed the most current information regarding building permit trends. Based on updated permit activity estimates for Fiscal Year 2004-05, it appears that full cost recovery can be achieved without the recommended increases. As a result, staff is recommending no increase in building fees for Fiscal Year 2004-05.

The preliminary fee recommendations projected \$193,000 in increased revenue resulting from the recommended increase; however, with the revised building permit projections, the building permit revenue projection is being increased by \$200,000.

During the stakeholder meeting, a suggestion was made to keep the fees at their current level and institute an additional fee for an expedited review/inspection process. With limited time to test if, in fact, developers/builders would be interested in an expedited process surcharge or how it would work in practical terms, staff is not proposing the option of a tiered service approach. It should be noted the division currently provides an expedited five-day turnaround process for approximately 45 percent of the applications received at no extra charge.

PUBLIC WORKS FEES

In providing preliminary Public Works fee recommendations to Council, staff was mindful that the current fee levels recover less than 40 percent of the full cost of providing services for projects. The fees have only been adjusted for Consumer Price Index increases since the last cost-of-service study conducted in 1991. As a result of the Maximus study, staff recommended that fees be increased to a level that would capture almost 100 percent of the cost of providing the services.

After further review of the preliminary fee recommendations, staff is proposing the option of establishing the Public Works fees at 75 percent of total cost. This option takes into account that, although developers are the primary beneficiaries of development-related services, delivery of these services also benefit the community as a whole by ensuring infrastructure improvements are planned, designed and constructed to City standards, ensuring health and safety compliance and assisting the general public with land use and development-related matters. The land development section spends about 25 percent of its time on services that could be considered a benefit to the community rather than specific development projects. Therefore, establishing a Public

Works fee based on 75 percent of full cost recovery accounts for the broader general community benefit.

Council may want to consider phasing the fee increases in an even incremental approach over two to three fiscal years. Attachment D shows the Public Works preliminary fee recommendations and the option of fees with a 25 percent reduction.

PLANNING FEES

Maximus' approach to both the Planning and Public Works fees was to use a cost methodology based on the principles of activity-based costing process. This technique measures the cost and performance of activities and processes, and the products and services generated from these activities. Using this information, Maximus was able to develop the cost of staff, distribute other direct and indirect costs of providing the services, and calculate the total cost of each service. In doing so, it was concluded that Planning fees only had a 34 percent cost recovery. The level of General Fund subsidy is a result, in large part, to the fees being established at an overall 40 percent of cost recovery level after the completion of the last cost-of-service study performed in 1991, coupled with very modest (usually equal to the Consumer Price Index) increases since that time.

Staff initially identified the group of services related to new development which were recommended with preliminary fees to be set at 100 percent of cost recovery. A second group of services which are focused on smaller projects (small businesses, single-family homes and remodels and upgrades of existing buildings) were recommended with preliminary fees to be set at 50 percent of cost recovery. In addition, some fees were recommended to not have any increases. Based on a review of the preliminary fee recommendations and in consideration of issues/concerns expressed at both the March 30 study session and the stakeholder meeting of May 5, staff looked in greater detail at the impact of the preliminary fee recommendations in two main fee-for-service areas:

1. Housing-Related Fees. In order to review in more detail the aggregate impact of the preliminary fee recommendations for Planning and Public Works fees on housing, staff selected four approved housing projects and compared the cost of current and preliminary fee recommendations. The four projects ranged from a four-unit, small-lot, single-family Planned Unit Development (PUD) to a 59-unit condominium development. The results of the review indicate the impacts of the fee increases are significantly higher for small projects. The fee increases total \$3,178 more per unit for the four-unit PUD, \$595 more per unit for a 20-unit

condominium, \$301 more per unit for a 47-unit townhouse development and \$484 more per unit for a 59-unit condominium complex with a recreation center. Attachment E provides a detailed comparison of the four projects reviewed.

To address the issue of the impact of the proposed fees on new and affordable housing projects, Council may wish to consider the following options:

- Below-Market-Rate (BMR) Units. Council could either reduce the preliminary fee recommendations or waive them entirely for the development-related fees. For market-rate projects that incorporate a BMR component, fees could be reduced or waived based on the percentage of BMR units in the project.
- Per-Unit Costs for Small Housing Projects. Housing projects ranging from 2 to 10 units could be charged Planning fees at 50 percent of cost recovery or the current fee (whichever is greater). The Public Works fees (which were presented in greater detail in an earlier section of the report) are based on the cost of required infrastructure improvements for a project and are not directly linked to the number of units in a project; thus, it is more difficult to link the size of a housing project with a reduction of Public Works fees.
- Other Housing Projects. A second option Council may wish to consider is a 75 percent cost recovery level or the current fee (whichever is greater) for all housing development (versus just BMR and small housing projects). The impact of this option would be continuing the practice of a General Fund subsidy for all housing projects and produce less General Fund revenue.

Attachment F shows an example of the impact of the options described above on a small housing project.

2. Precise Plan Amendments. The fee with the largest percentage increase (415 percent) is Precise Plan Amendments. The preliminary fee recommendation of \$9,870 for a precise plan amendment was based on the unit cost for an average project, which was estimated to take about 82.5 hours. Given the size of the increase, staff reviewed previous projects and determined that minor precise plan amendments, consisting of only minor text amendments with no analysis or further review required, would take about 52.5 hours. The Council may want to consider establishing a new category for "Minor Precise Plan Amendment" and establishing the fee at \$4,935, or 50 percent of the preliminary fee recommendation

for a precise plan amendment, and the category of "Precise Plan Amendment" be changed to "Major Precise Plan Amendment."

An option Council may also wish to consider is phasing the fee increases over a two- to three-year time frame. Attachment G includes the preliminary fee recommendations and the proposed fee options.

FIRE DEPARTMENT FEES

Staff presented preliminary Fire Department fee recommendations at the May 4, 2004 study session (Attachment H). The fee study by Maximus relates to the following Fire Department operations:

- Multi-family housing inspection.
- Fire prevention (fire safety permits (nonhazardous materials occupancies), reinspections, special events and multi-family common area inspections).
- Hazardous materials (fire safety permits, hazardous materials permits, facility closures, underground storage tank permits and reinspections) with these revenues going to the Wastewater Fund.

Staff is not recommending any changes in the preliminary fee recommendations, except for options Council may wish to consider for the multi-family inspection program fees. As was discussed during staff's presentation on May 4, the preliminary recommended fees depend on decisions relative to restructuring the multi-family housing inspection program in the Fire Prevention Division and, with those changes, reflect 100 percent cost recovery for this program. Council may wish to consider the following options:

- Setting the fees at less than 100 percent of cost recovery. In considering this proposal, staff notes that the multi-family housing common area inspection program is currently provided without any fee and represents a \$361,000 General Fund subsidy.
- Implementing the fee increases over a two- to three-year time frame.
- Establishing a multi-family inspection fee at the recommended flat rate and adding a reinspection fee (to be applied after the initial inspection and one reinspection) based on the minimum of one hour at the hourly rate for the Inspector. After the second reinspection, the hourly rate is charged plus administrative remedy

penalties of \$100 per violation, \$250 per violation after the third reinspection and up to \$500 per violation after the fourth and subsequent reinspections.

Administrative remedies is a new program and has not been used as an enforcement tool to bring violators of the City Code regarding multi-family housing inspections into compliance but will be utilized for the upcoming fiscal year. As there is no history of the level of revenue which might be generated from these penalties, it is impossible to project an amount. However, an alternative Council may wish to consider is an annual review of the per-unit fee based on the total cost of the program offset by any revenue generated by the administrative remedy fines paid in the prior fiscal year. Attachment H presents the preliminary recommended Fire Department fees, including the options discussed above.

STAKEHOLDER COMMENTS

Attachment I summarizes the comments made at the stakeholder's meeting held on May 5 attended by approximately 30 people. Staff has summarized the comments into the following categories:

- Category A: Comments regarding the current development and economic climate.
- Category B: General comments and concerns regarding the fees.
- Category C: Comments regarding the impact fees will have on development.
- Category D: Comments regarding alternatives to the fees as proposed.

Staff has specifically addressed within this report the questions and concerns regarding the phasing of the fee increases, expedited services and the impact of the fees on housing development.

CONCLUSION

Council received staff's preliminary fee recommendation at the study sessions of March 30 and May 4. These recommendations are based on the results of the Maximus cost recovery study, which looked at the total cost (both direct and indirect) of providing specific services. In developing the recommendations, staff considered many factors, including the length of time since the last cost-of-service study and related fee increases, impact on recipients, City's financial situation and comparable fees in neighboring communities.

Subsequent to the Council's review of the preliminary fees, staff held input sessions with the Parks and Recreation Commission and stakeholders. Additionally, staff has been engaged in a process of reexamining the preliminary fee recommendations to consider/reconsider the following:

- The goal of 100 percent cost recovery;
- History of fee increases;
- Updated information about fee changes neighboring cities are implementing;
- Impact of aggregate fee changes on different types of development;
- Questions/concerns raised by Council at the March 30 meeting; and
- Comments from March 30 Council meeting, April 28 PRC meeting and May 5 stakeholder meeting.

Options to the preliminary recommendations have been developed as a result of the reexamination process. The options presented in this report are summarized for ease of review in Attachment J. If Council approves these options or others during the budget approval process, there will be a fiscal impact to the fee revenue assumed in the Narrative Budget.

Staff projected a minimum of \$400,000 in increased revenue from the recommended fee increases included in the Narrative Budget for Fiscal Year 2004-05 and an additional \$200,000 in revenue in Contingency List 1. Neither of these revenue assumptions includes the impact of any reorganization or modified fees in the Fire Department, nor does it assume implementation of an Emergency Dispatch Fee. It is difficult to be precise on the impact of the revised recommendations to the initial \$400,000 minimum revenue estimate. Attachment J provides staff's best estimate, at this time, on the impacts of different options. Once preliminary direction from Council is received, staff will be better able to provide a more precise estimate as to what the impact will be on revenues. It is clear, though, that any of the options presented will result in reduced revenues.

Obtaining input from stakeholders and other interested parties has been important in this process, and over 500 notices have been sent regarding the May 18 study session.

Prepared by:

Approved by:

Nadine P. Levin
Assistant City Manager

Kevin C. Duggan
City Manager

Helen M. Ansted
Principal Financial Analyst

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- Attachments:
- A. Item 3.2 from March 30 Study Session "Cost Recovery (Fee Study) Report"
 - B. Recreation Services – Cost of Service Analysis and Recommendations
 - C. April 28, 2004 Parks and Recreation Commission Staff Report and Draft Minutes
 - D. Public Works – Cost of Service Analysis and Recommendations
 - E. Comparison of Current and Preliminary Fee Recommendations for Development Services
 - F. Comparison of Current, Preliminary Fee Recommendations and Application of Options for Small Housing Projects
 - G. Planning – Cost of Service Analysis and Recommendations
 - H1: Fire Prevention – Cost of Service Analysis and Recommendations
 - H2: Hazardous Materials – Cost of Service Analysis and Recommendations
 - I. Summary of Comments from May 5, 2004 Stakeholders Meeting

J: Summary of Fee Recommendations and Options